



News Release

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IRS RECOMMENDS TAXPAYERS CHECK THEIR WITHHOLDING

WASHINGTON – With the year starting to wind down, the Internal Revenue Service encourages taxpayers to take a few minutes to check their withholding to make sure what is being taken out of their paychecks matches their actual tax liability.

If not enough is withheld, individuals will owe tax at the end of the year and may, in some cases, have to pay a penalty. If too much tax is withheld, they will lose the use of this money until they get their refund.

“At this time of year, it makes good financial sense to take a few minutes to make sure you’re on target with your withholding,” said IRS Commissioner Charles O. Rossotti. “If you’re not having enough withheld, you may still have time to avoid a penalty.”

Taxpayers should pay particular attention to their withholding if they received a big refund check this year or if they had to make a tax payment that was more than they could comfortably pay.

More than 90 million taxpayers received a refund that averaged \$1,743 last year. For Fiscal 2001, the last year for which full data is available, 6.3 million taxpayers were assessed an average penalty of \$254 for failing to pay enough tax during the year.

Individuals should also check their withholding if there are significant personal or financial changes in their life. Many of these shifts involve the addition or reduction of exemptions or a change in filing status that alters tax liability, even if there has been no change in income. These include:

- Marriage
- Divorce
- The birth or adoption of a child
- The purchase or sale of a new home
- Retirement

Other changes that can alter the amount that needs to be withheld include taking a second job, having a spouse go back to work, or receiving income not subject to withholding, such as rent, dividends, interest or capital gains.

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The proper withholding amount is also affected by whether a taxpayer is self-employed or is responsible for household employment taxes.

Wage earners can adjust the amount withheld by giving the employer a new Form W-4. This form asks for marital status, withholding allowances and any additional amount that needs to be withheld.

Employers use the information on the W-4 to figure the taxes to be withheld from employee compensation according to calculation methods provided by the IRS.

Generally, a penalty will apply if a taxpayer's withholding and estimated tax payments total less than 90 percent of the current year's tax liability and less than 100 percent of the previous year's tax.

While many individuals are pleased to see a refund, what they get usually represents what they have *overpaid* during the year. The average refund check has risen in most years over the past two decades. Each year, about 70 percent of taxpayers receive a refund when they file their returns.

Those looking for assistance in figuring out whether they are withholding enough can get help from IRS Pub. 919, "How Do I Adjust My Tax Withholding?" A set of worksheets in this publication assists taxpayers in adjusting for such items as multiple incomes, expected capital gains income and self-employment tax. Pub. 919 is available at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

On-line help is also available at the IRS Web site. Click on "Withholding Calculator" near the bottom of the "Individuals" page. With the help of current pay stubs and a copy of last year's tax form, users can check to see if they are withholding the right amount. Information from this calculator can then be used to revise a W-4.

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